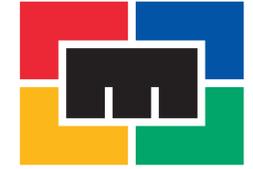


ELECTRICITY TARIFF INCREASE

WHAT THE ABOVE-INFLATION ELECTRICITY TARIFF INCREASES GRANTED BY NERSA MEANS FOR THE MINING INDUSTRY, ESKOM AND ESKOM'S OTHER CUSTOMERS

March 2019



MINERALS COUNCIL
SOUTH AFRICA



On 7 March 2019, the National Energy Regulator of South Africa (NERSA) granted annual tariff increases of 9.4% in 2019/2020; 8.1% in 2020/2021; and 5.2% in 2021/2022 in terms of the Multi-Year Price Determination Period four (MYPD4), for the period 1 April 2019 to 31 March 2022.

NERSA further approved an additional 4.4% tariff increase in terms of Eskom's Third Multi-Year Price Determination Regulatory Clearing Account (RCA) for year five, which will increase the annual electricity tariff for 2019/2020 to 13.9%. These increases amount to a compounded increase of 9.8% per year over three years, which is 29.5% higher than the current electricity tariff.

TARIFF INCREASES APPLIED FOR BY ESKOM VS TARIFF INCREASES GRANTED BY NERSA

Period	Tariff increases applied for by Eskom	Tariff increases granted by NERSA
	R billion	R billion
MYPD4 2019/2020	219	206.380
MYPD4 2020/2021	252	221.843
MYPD4 2021/2022	291	233.078
RCA 2019/2020	21.6	3.869
Total	783.6	665.170

While the tariff increases granted by NERSA are less than the amounts Eskom applied for, it still amounts to 85% of what the power utility applied for.

Given the fundamentals of the mining industry, the sustainability of a mining operation is dependent on its ability to contain its cost of production. The substantial tariff increases that have been awarded will have a major impact on the industry's cost structure, jeopardising the viability of marginal and loss-making mines and, inevitably, accelerating job losses at energy-intensive mines in particular.

IMPLICATIONS FOR ESKOM AND ITS OTHER CUSTOMERS

Eskom relies on customers to use and pay for the electricity it produces. At the moment, the mining industry consumes around 30% of Eskom's annual power supply, for both mining and smelting activities. Not only is the industry a major customer of Eskom, but it is also a consistent and early payer. Fundamentally, the mining industry supports the financial wellbeing of Eskom and helps ensure the supply of electricity to the country as a whole at current costs.

If the mining industry's usage declines as tariffs make certain operations and activities unprofitable, Eskom will not achieve its targeted sales volumes. This will result in additional substantial increases in electricity prices across the country, that will have to be paid by industrial and private consumers alike.

Inevitably, the increases awarded to Eskom will only serve to accelerate the power utility's downward spiral that will come as a result of inflated tariff increases and declining electricity usage by a critical consumer.

“At the moment, the mining industry consumes around 30% of Eskom's annual power supply.”



IMPACT OF THE NERSA APPROVED MYPD4 TARIFF INCREASES ON THE MINING INDUSTRY

IMPACT ON THE GOLD SECTOR

At the end of 2018, 71% of gold mining operations, representing 60% of gold production, were either marginal or loss making. At these operations, approximately 58,000 jobs are currently at risk.

While the tariff increases granted by NERSA are less than the amounts Eskom applied for, the impact of the above-inflation annual tariff increases will still have a detrimental impact on the overall cost profile of an industry already in distress.

On an aggregated basis, total industry production costs will increase by 29% over the three-year period. While the approved annual tariff increases are 12% lower over the three-year period than the tariff increases applied for by Eskom, the relief this brings to the gold mining industry is inconsequential when the current marginal and loss-making metrics of the industry are taken into account.

AGGREGATED PRODUCTION COST INCREASES ACROSS THE GOLD SECTOR (Eskom's MYPD4 application vs. MYPD4 tariff increases granted by NERSA)

	Current production costs	Year 1	Year 2	Year 3	Total increase
Total industry production cost increase based on Eskom's MYPD4 application	R11,874,136.83	R13,108,106 (▲ R1,223,970 more than current)	R14,710,523 (▲ R1,602,417 more than year 1)	R16,752,542 (▲ R2,042,019 more than year 2)	R4,878,406 (▲ 41% increase over 3 years)
Total industry production cost increase based on MYPD4 tariff increases granted by NERSA	R11,874,136.83	R13,174,355 (▲ R1,300,218 more than current)	R14,138,718 (▲ R964,363 more than year 1)	R15,316,473 (▲ R1,177,755 more than year 2)	R3,442,336 (▲ 29% increase over 3 years)
Rand difference	-	▲ R66,248	▼ R-571,806	▼ R1,436,070	▼ R1,941,627
Percentage difference	0.0%	▲ 0.5%	▼ -3.9%	▼ -8.6%	▼ -12.0%

Minerals Council South Africa calculations

Factoring in the approved tariffs into the industry's inflation profile and into the gold industry cost curves in relation to the 2018 gold price would render almost all gold operations (95%), representing 97.5% of gold production, loss-making or marginal in a short period of three years, threatening a total of 95,723 jobs.

The difference between the tariffs Eskom applied for and those approved by NERSA only results in 8,323 jobs potentially being saved.



AngloGold Ashanti, Mponeng

TARIFF INCREASE IMPACT ON SUSTAINABILITY OF OPERATIONS, PRODUCTION AND EMPLOYMENT ACROSS THE GOLD SECTOR

	Current	Year 1	Year 2	Year 3
Inflation		10.95%	7.32%	8.33%
Number of marginal/loss-making companies	15	19	19	20
Percentage of marginal/loss-making operations	71.4%	90.5%	90.5%	95.2%
Kilograms produced	61,361	104,479	104,479	105,156
Percentage of marginal/loss-making production	56.9%	96.8%	96.8%	97.5%
Estimated employment losses based on Eskom's MYPD4 application	57,482	97,875	97,875	98,509
Estimated employment losses based on MYPD4 tariff increases granted by NERSA	57,482	95,107	95,107	95,723
Cumulative difference in employment resulting from the tariffs applied for by Eskom and the tariffs granted by NERSA				-8,323

Minerals Council South Africa calculations



IMPACT ON THE PGMs SECTOR

At the end of 2018, more than 65% of PGMs operations, representing 52% of PGMs production were marginal or loss-making at prevailing prices. At these operations, approximately 89,964 jobs are currently at risk. These operations are producing in the upper quartile of the industry's cost curves.

On an aggregated basis, total industry production costs measured in tonnes milled will increase by 29.6% over the three-year period. The approved annual tariff increases are 10.5% lower over the three-year period than the tariff increases applied for by Eskom.

“At the end of 2018, more than 65% of PGMs operations, representing 52% of PGMs production were marginal or loss-making at prevailing prices.”

AGGREGATED PRODUCTION COST INCREASES ACROSS THE PGMs SECTOR (Eskom's MYPD4 application vs. MYPD4 tariff increases granted by NERSA)

	Current production costs	Year 1	Year 2	Year 3	Total increase
Total industry production cost (measured in tonnes milled) increase based on Eskom's MYPD4 application	R21,642	R23,891 (▲ R2,249 more than current)	R26,812 (▲ R2,921 more than year 1)	R30,534 (▲ R3,722 more than year 2)	R8,892 (▲ 41% increase over 3 years)
Total industry production cost (measured in tonnes milled) increase based on MYPD4 tariff increases granted by NERSA	R21,642	R24,133 (▲ R2,491.2 more than current)	R25,900 (▲ R1,767 more than year 1)	R28,057 (▲ R2,157 more than year 2)	R6,415 (▲ 29.6% increase over 3 years)
Rand difference	-	▲ R2,591	▼ R-912	▼ R-2,476	▼ R-2,476
Percentage difference	0.0%	▲ 1%	▼ -3.4%	▼ -8.1%	▼ -10.5%

Minerals Council South Africa calculations

Factoring in the approved tariffs into the industry's inflation profile and ultimately into the PGMs industry's cost inflation index and, ultimately into the industry's cost curves at prevailing prices, would render 75% of PGM operations, representing 67.2% of production loss-making or marginal at the end of the three-year period, threatening a total of 111,766 jobs.

The difference between the tariffs Eskom applied for and those approved by NERSA only results in 22,879 jobs being potentially saved.



Anglo American Platinum, Dishaba Mine

TARIFF INCREASE IMPACT ON SUSTAINABILITY OF OPERATIONS, PRODUCTION AND EMPLOYMENT ACROSS THE PGMs SECTOR

	Current	Year 1	Year 2	Year 3
Inflation		10.95%	7.32%	8.33%
Number of marginal/loss-making companies	13	13	15	15
Percentage of marginal/loss-making operations	65%	65%	75%	75%
Tonnes milled (000t)	31,473	31,473	40,482	40,482
Percentage of marginal/loss-making production	52.3%	52.3%	67.2%	67.2%
Estimated employment losses based on Eskom's MYPD4 application	89,964	89,964	115,716	127,624
Estimated employment losses based on MYPD4 tariff increases granted by NERSA	89,964	86,893	111,766	111,766
Cumulative difference in employment resulting from the tariffs applied for by Eskom and the tariffs granted by NERSA				-22,879

Minerals Council South Africa calculations



Implats, Impala Platinum

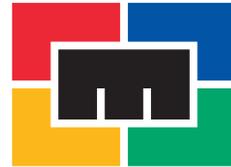
SOCIO-ECONOMIC IMPLICATIONS

In total, as many as 90,222 jobs would be at risk solely as a result of the MYPD4 tariff increases granted to Eskom. This figures excludes existing sector-specific challenges. Given the mining sector's dependency ratio of 10 people supported by each mining job, the potential socio-economic implications for the country are dire.

TOTAL IMPACT SUMMARY

Commodity	Job losses based on Eskom's MYPD4 application	Job savings as a result of the MYPD4 tariff increases granted by NERSA	Job losses based on MYPD4 tariff increases granted by NERSA
Gold	41,027	8,323	32,704
PGMs	37,660	22,879	14,781
Other	71,313	28,577	42,737
Total	150,000	59,779	90,222

Minerals Council South Africa calculations



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